

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Davison	County Genesee
Audit Date June 30, 2004	Opinion Date September 19, 2004	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

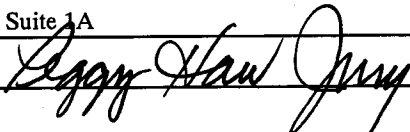
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1-968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91 ], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 1 00% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) BKR Dupuis & Ryden			
Street Address 111 E. Court Street, Suite 1A	City Flint	State MI	ZIP 48502
Accountant Signature  Peggy Haw Jury, CPA			

**Annual Financial Report**

**City of Davison  
Davison, Michigan**

**June 30, 2004**

**with *Independent Auditors' Report***

**City of Davison  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2004**

**Table of Contents**

	<u>Page</u>
Introductory Section:	
List of Elected and Appointed Officials .....	1
Financial Section:	
Report of Independent Auditors .....	2-3
Management's Discussion and Analysis .....	4-8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	9-10
Statement of Activities.....	11-12
Fund Financial Statements:	
Balance Sheet Governmental Funds .....	13
Reconciliation of the Fund Balance as Reported in the Governmental Balance Sheet to the Statement of Net Assets .....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Statement of Net Assets – Proprietary Funds .....	17-18
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds .....	19
Statement of Cash Flows – Proprietary Funds.....	20
Statement of Assets and Liabilities – Fiduciary Funds.....	21
Notes to the Basic Financial Statements .....	22-51
Required Supplementary Information Section:	
Analysis of PERS Funding Progress .....	52
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budgetary Basis) General, Major Street, and Local Street Funds .....	53-56

**City of Davison  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2004**

**Table of Contents – (continued)**

	<u>Page</u>
Combining Fund Statements and Fund Descriptions:	
Fund Descriptions.....	57-59
Combining Statements:	
Combining Balance Sheet – Nonmajor Governmental Funds .....	60-61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds .....	62-63
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Nonmajor Special Revenue Funds .....	64-65
Combining Balance Sheet – Agency Funds.....	66

## **Introductory Section**

**Annual Financial Report  
City of Davison, Michigan  
June 30, 2004**

**List of Elected Officials**

**Mayor**

Frederick R. Rappuhn

**City Council**

Patricia Conley  
Ronald D. Emery  
Jack Somers  
Keith Flewelling  
Gary Hale, Mayor Pro-team  
Donald Csutoras

**Appointed Officials**

Peter Auger, City Manager  
Cynthia VanMegroet, Treasurer  
Cynthia L. Payton, Clerk  
William P. Brandon, Police Chief  
Dennis Miller, Building Official  
Scott Yaklin, DPW Director  
Colleen Hackney, Community  
Development Director

## **Financial Section**

*Independent Auditors' Opinion*

To the Honorable Mayor and the City Council  
City of Davison, Michigan

We have audited the basic financial statements of the City of Davison, Michigan as of June 30, 2004, and for the year then ended. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note I.B, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2004.

In our opinion, the basic financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of the City of Davison, Michigan at June 30, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with "*Government Auditing Standards*" we have also issued a report dated September 19, 2004 on our consideration of City of Davison's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The management's discussion and analysis on pages 4 through 8 and the information in the required supplemental information section on pages 52 through 56 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section combining and individual nonmajor fund financial statements presented on pages 60 through 66 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole. The introductory have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*BKR Dupuis & Ryden*

Certified Public Accountants  
Flint Office

September 19, 2004

## **Management's Discussion and Analysis**

## **City of Davison Management's Discussion and Analysis**

This section of the City of Davison's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the City's financial statements, which follow this section.

### **First Year - Governmental Accounting Standards Board Statement No.34**

The City of Davison is implementing the new Governmental Accounting Standards Board Statement No.34 reporting requirement for the first time this year. Known as GASB 34, the new reporting requirement includes this letter, which should provide an analysis of current year financial information. However, as this is the first year the City of Davison is implementing GASB 34, the prior-year financial information is not available in the GASB 34 format. The Governmental Accounting Standards Board has recognized this problem, and does not require the City of Davison to restate prior-year financial information for the purposes of providing comparative data in the first year of implementation. The City of Davison will present a comparative analysis of government-wide data in future years when prior-year information is available. The following information presents an analysis of key elements of the total governmental funds and the total enterprise funds.

#### **Financial Highlights**

- The City's Total Net Assets are \$15.6 million.
- During the year, the City's expenses were \$247,000 less than the \$3,514,000 generated in taxes, other revenues and other financing sources for governmental programs.
- The City's over-all unrestricted net assets are \$2.1 million.
- General fund revenues exceeded expenditures by \$159 thousand before operating transfers out. After operating transfers of \$133 thousand, the net increase in fund balance was \$25 thousand.

#### **Overview of the Financial Statements**

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non major governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  - \* The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
  - \* Proprietary fund statements offer short- and long-term financial information about the activities that the government operates like businesses, such as the water and sewer system.
  - \* Fiduciary fund statements provide information about agency financial relationships.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in single columns in the basic financial statements.

Table 1 (below) summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 - Major Features of the City of Davison's Government-wide and Fund Financial Statements**

<b><u>Type of Statements</u></b>	<b><u>Government-wide</u></b>	<b><u>Governmental Funds</u></b>	<b><u>Proprietary Funds</u></b>	<b><u>Fiduciary Funds</u></b>
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses: the water and sewer system, and the parking facilities	Instances in which the City is the agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary assets and liabilities</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

## **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into three categories:

- Governmental activities – Most of the City's basic services are included here, such as the police, fire, public works, and parks departments and general administration. Property taxes and state and federal grants finance most of these activities.
- Business-type activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system are included here.
- Component units – The City includes two other entities in its report – the Downtown Development Authority and the Local Development Finance Authority. Although legally separate, these "component units" are important because the City is financially accountable for them. Separately issued financial statements are available at City Hall for both these component units.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants (like aid from the US Department of Housing and Urban Development).

The City has three kinds of funds:

- Governmental funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements.

- Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities – such as the City's Equipment Fund.
- Fiduciary funds – All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

## **Financial Analysis of the City as a Whole**

### **Changes in Net assets**

The City's combined net assets are \$15.6 million. Governmental activities have total net assets of \$5.1 million. However, the unrestricted governmental activities net assets are \$2.1 million.

### **Governmental Activities**

The City's total governmental fund revenues, excluding other financing sources, were \$3.2 million this year. Property taxes were \$1.5 million or 47% of the total revenues. Property taxes increases are controlled by various State laws that favor newer, undeveloped cities while severely restricting developed cities (like Davison) to amounts at or below the rate of inflation. State revenue sharing made up \$1.1 million or 35% of the total revenue but the distribution of those revenues is controlled by State laws. The remaining 18% of governmental fund revenues are comprised mostly of Charges for Services, fines and forfeitures, and Interest revenue.

### **Business-Type Activities**

Operating revenues of the City's business-type activities were \$1.4 million. Operating expenses were \$1.2 million.

## **Financial Analysis of the City's Funds**

As the City completed the year, its governmental funds reported a combined fund balance of \$2.7 million.

### **General Fund Budgetary Highlights**

The budget for 2003-04 was passed on June 14, 2003 and amended by the City Council.

### **Capital Assets**

At the end of 2004, the City had invested \$1.7 million in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for the first year of implementation of GASB Statement 34. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed cities to comply with this portion of Statement 34 prospectively.

### **Long-term Debt**

At year-end the City had \$540 thousand in bonds and notes outstanding for governmental activities and \$4.5 million in bonds and notes outstanding for business type activities. Annual debt service requirements for governmental activities debt will decline significantly over the next three years, from \$220 thousand in 2005 to \$95 thousand in fiscal 2007.

### **Limitations on Debt**

The State limits the amount of general obligation debt the City can issue to 10% of the assessed value of all taxable property within the City's corporate limits. Our legal debt limit is \$99 million. The City has an available unused portion of \$8.8 million.

### **Economic Factors and Next Year's Budgets and Rates**

The unemployment rate in Genesee County was 9.1% for fiscal year 2004. The inflation rate for use in the 2002 capped value formula, and the 2002 "Headlee" millage reduction fraction formula was 3.2%. The capped value and the Headlee millage reduction are key elements in determining property tax revenues.

### **Contacting the City's Financial Administration**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Davison, 200 E. Flint Street, Davison, Michigan 48423.

## **Basic Financial Statements**



## **Government-wide Financial Statements**

**City of Davison  
Statement of Net Assets  
June 30, 2004**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and equivalents	\$ 1,062,176	\$ 1,192,740	\$ 2,254,916
Investments	2,039,497	2,053,810	4,093,307
Receivables	23,103	92,901	116,004
Due from component units	60,552	-	60,552
Due from other governments	475,381	-	475,381
Internal balances	(18,795)	18,795	-
Inventory	7,635	19,981	27,616
Restricted assets:			
Cash and cash equivalents	-	725,231	725,231
Other assets	-	29,929	29,929
Capital assets (net of accumulated depreciation)	2,346,319	5,494,844	7,841,163
Total assets	5,995,868	9,628,231	15,624,099
<b>Liabilities</b>			
Accounts payable	102,899	352,976	455,875
Accrued liabilities	13,202	1,351	14,553
Deposits	-	3,790	3,790
Due to primary government	-	-	-
Due to other governments	178,010	-	178,010
Retainer payable	-	119,025	119,025
Noncurrent liabilities:			
Due within one year	220,000	210,000	430,000
Due in more than one year	387,075	4,268,870	4,655,945
Total liabilities	901,186	4,956,012	5,857,198
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,739,244	1,015,974	2,755,218
Restricted for:			
Special revenue	658,679	-	658,679
Debt Service	487,175	-	487,175
Capital projects	61,717	1,413,956	1,475,673
Other purposes	7,419	-	7,419
Unrestricted	2,140,448	2,242,289	4,382,737
Total net assets	\$5,094,682	\$4,672,219	\$9,766,901

<u>Component Units</u>			
<u>Downtown</u>	<u>Local</u>		
<u>Development</u>	<u>Development</u>		
<u>Authority</u>	<u>Finance</u>		
<u>Authority</u>	<u>Authority</u>		
\$ 60,504	\$ 127,123		
-	-		
-	-		
-	-		
-	-		
-	-		
-	-		
-	-		
-	5,000		
20,992	-		
81,496	132,123		
2,225	-		
-	-		
-	-		
56,349	4,203		
-	-		
-	-		
-	-		
-	-		
58,574	4,203		
-	-		
-	-		
-	-		
-	-		
22,922	127,920		
\$22,922	\$127,920		

**City of Davison  
Statement of Activities  
For the Year Ended June 30, 2004**

<b>Functions\Programs</b>	<b>Program Revenues</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
<b>Primary government:</b>			
Governmental activities:			
Legislative	\$ 21,691	\$ -	\$ -
General government	577,446	603,679	-
Public safety	1,384,421	20,324	599
Public works	1,016,498	212,557	30,083
Recreation and culture	235,913	56,139	-
Interest on long-term debt	30,519	-	-
Total governmental activities	3,266,488	892,699	30,682
Business-type activities:			
Sewer	731,815	650,181	-
Water	565,226	746,547	-
Total business-type activities	1,297,041	1,396,728	-
Total primary government	\$ 4,563,529	\$ 2,289,427	\$ 30,682
<b>Component units:</b>			
Davison Downtown Development Authority	\$ 231,376	\$ -	\$ 15,000
Davison Local Finance Development Authority	18,570	-	-
Total component units	\$ 249,946	\$ - 0 -	\$ 15,000
<b>General revenues:</b>			
Property taxes			
Sales tax			
Motor fuel tax			
Unrestricted investment earnings			
Unrestricted earnings			
Total general revenues and transfers			
Change in net assets			
Net assets - beginning			
<b>Net assets - ending</b>			

**Net (Expense) Revenue and Changes in Net Assets**

Capital Grants and Contributions	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Development Finance Authority
\$ -	\$ (21,691)	\$ -	\$ (21,691)	\$ -	\$ -
-	26,233	-	26,233	-	-
-	(1,363,498)	-	(1,363,498)	-	-
46,621	(727,237)	-	(727,237)	-	-
43,177	(136,597)	-	(136,597)	-	-
-	(30,519)	-	(30,519)	-	-
89,798	(2,253,309)	-	(2,253,309)	-	-
-	-	(81,634)	(81,634)	-	-
-	-	181,321	181,321	-	-
-	-	99,687	99,687	-	-
\$ 89,798	(2,253,309)	99,687	(2,153,622)	-	-
-	-	-	-	(216,376)	-
-	-	-	-	-	(18,570)
\$ - 0 -	-	-	-	(216,376)	(18,570)
	1,510,360	-	1,510,360	105,481	42,911
	624,615	-	624,615	-	-
	322,972	-	322,972	-	-
	42,973	41,441	84,414	778	1,133
	-	16,275	16,275	-	-
	2,500,920	57,716	2,558,636	106,259	44,044
	247,611	157,403	405,014	(110,117)	25,474
	4,847,071	4,514,816	9,361,887	133,039	102,446
\$ 5,094,682	\$ 4,672,219	\$ 9,766,901	\$ 22,922	\$ 127,920	

## **Fund Financial Statements**

**City of Davison  
Balance Sheet  
Governmental Funds  
June 30, 2004**

	<b>General</b>	<b>Major Streets</b>	<b>Local Streets</b>	<b>Governmental Funds</b>	<b>Totals</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 181,190	\$ 322,692	\$ (3,059)	\$ 340,566	\$ 841,389
Investments	1,255,288	101,107	151,660	229,331	1,737,386
Receivables:					
Taxes	12,642	-	-	-	12,642
Accounts	4,284	-	-	-	4,284
Special assessments	-	-	4,804	-	4,804
Interest	1,373	-	-	-	1,373
Due from other funds	21,037	1,056	3,214	994	26,301
Due from other governmental units	401,632	44,679	15,118	5,883	467,312
Due from component unit	60,552	-	-	-	60,552
Inventory	7,634	-	-	-	7,634
<b>Total assets</b>	<b>\$ 1,945,632</b>	<b>\$ 469,534</b>	<b>\$ 171,737</b>	<b>\$ 576,774</b>	<b>\$ 3,163,677</b>
<b>Liabilities</b>					
Accounts payable	\$ 69,054	\$ 665	\$ 2,074	\$ 903	\$ 72,696
Accrued liabilities	12,049	-	799	-	12,848
Due to other funds	42,246	-	-	5,147	47,393
Due to other governments	165,516	-	-	2,132	167,648
Deferred revenue	168,498	-	4,804	-	173,302
<b>Total liabilities</b>	<b>457,363</b>	<b>665</b>	<b>7,677</b>	<b>8,182</b>	<b>473,887</b>
<b>Fund Balances</b>					
Reserved for:					
Skate park	6,419	-	-	-	6,419
Disaster relief	1,000	-	-	-	1,000
Unreserved:					
Designated for subsequent years' expenditures	181,123	-	-	-	181,123
Unreserved reported in:					
General fund	1,299,727	-	-	-	1,299,727
Debt service funds	-	-	-	487,175	487,175
Special revenue funds	-	468,869	164,060	19,700	652,629
Capital projects fund	-	-	-	61,717	61,717
<b>Total fund balances</b>	<b>1,488,269</b>	<b>468,869</b>	<b>164,060</b>	<b>568,592</b>	<b>2,689,790</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,945,632</b>	<b>\$ 469,534</b>	<b>\$ 171,737</b>	<b>\$ 576,774</b>	<b>\$ 3,163,677</b>

*See notes to financial statements.*

**City of Davison**  
**Reconciliation of the Fund Balance as Reported in the**  
**Governmental Balance Sheet to the Statement of Net Assets**  
**For the Year Ended June 30, 2004**

Total Governmental Funds Fund balance as reported in the Balance Sheet	
Governmental Funds	\$ 2,689,790

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,046,027
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Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	173,302
--	---------

Long term liabilities, including long term notes payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(607,075)
--	-----------

Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	<u>792,638</u>
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Net Assets - Governmental Activities	<u><u>\$ 5,094,682</u></u>
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*See notes to financial statements.*



**City of Davison**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Governmental Funds**  
**For the Year Ended June 30, 2004**

	<b>General</b>	<b>Major Streets</b>	<b>Local Streets</b>	<b>Other Governmental Funds</b>	<b>Totals</b>
<b>Revenues</b>					
Taxes	\$ 1,256,053	\$ -	\$ -	\$ 243,486	\$ 1,499,539
Special assessments	-	-	1,051	-	1,051
Licenses and permits	20,065	-	-	-	20,065
Intergovernmental revenue:					
Federal	-	-	-	5,503	5,503
State and local	758,548	272,461	88,960	-	1,119,969
Charges for services	90,320	-	-	192,537	282,857
Fines and forfeits	55,405	-	-	-	55,405
Interest income	38,286	3,318	2,391	4,937	48,932
Miscellaneous revenues	171,264	-	-	13,153	184,417
<b>Total revenues</b>	<b>2,389,941</b>	<b>275,779</b>	<b>92,402</b>	<b>459,616</b>	<b>3,217,738</b>
<b>Expenditures</b>					
Legislative	21,550	-	-	-	21,550
General governmental	293,715	-	-	-	293,715
Public safety	1,419,438	-	-	-	1,419,438
Public works	360,857	166,619	186,812	189,420	903,708
Recreation and cultural	135,410	-	-	126,949	262,359
Capital outlay	-	-	-	5,503	5,503
Debt service:					
Principal payments	-	-	-	240,000	240,000
Interest and fiscal charges	-	-	-	30,519	30,519
<b>Total expenditures</b>	<b>2,230,970</b>	<b>166,619</b>	<b>186,812</b>	<b>592,391</b>	<b>3,176,792</b>
Excess (deficiency) of revenues over expenditures	158,971	109,160	(94,410)	(132,775)	40,946
<b>Other financing sources (uses)</b>					
Operating transfers in	-	10,000	91,620	89,271	190,891
Operating transfers out	(133,241)	(54,156)	-	(3,494)	(190,891)
<b>Total other financing     sources (uses)</b>	<b>(133,241)</b>	<b>(44,156)</b>	<b>91,620</b>	<b>85,777</b>	<b>-</b>
Net change in fund balance	25,730	65,004	(2,790)	(46,998)	40,946
Fund balances - beginning of year	1,462,361	403,865	166,850	615,768	2,648,844
Residual equity transfer in	178	-	-	(178)	-
<b>Fund balances - end of year</b>	<b>\$ 1,488,269</b>	<b>\$ 468,869</b>	<b>\$ 164,060</b>	<b>\$ 568,592</b>	<b>\$ 2,689,790</b>

**City of Davison**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2004**

Amounts reported for governmental activities in the statement of activities (pages 11-12) are different because:

Net Change in fund balances - total governmental funds (page 15)	\$ 40,946
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	8,470
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(31,734)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	209,382
Internal service funds are used by management to charge the costs of fleet management to individual funds.	
The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>20,547</u>
Change in net assets of governmental activities (page 12)	<u><u>\$ 247,611</u></u>

*See notes to financial statements.*

**City of Davison  
Statement of Net Assets  
Proprietary Funds  
June 30, 2004**

	<b>Business-type Activities- Enterprise Funds</b>			<b>Governmental Activities Internal Service Funds</b>
	<b>Sewer</b>	<b>Water</b>	<b>Totals</b>	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 322,540	\$ 870,200	\$ 1,192,740	\$ 220,787
Investments	588,584	1,465,226	2,053,810	302,111
Accounts receivable	41,790	51,111	92,901	-
Due from other funds	100,256	90,840	191,096	-
Inventory of supplies (at cost)	-	19,981	19,981	-
Total current assets	1,053,170	2,497,358	3,550,528	522,898
Noncurrent assets:				
Restricted cash and cash equivalents	351,932	373,299	725,231	-
Bond issuance costs	-	29,929	29,929	-
Capital assets:				
Land	-	1,000	1,000	-
Buildings	-	139,395	139,395	-
Improvements other than buildings	2,302,354	2,598,897	4,901,251	-
Machinery and equipment	46,165	100,239	146,404	942,560
Construction in progress	-	3,419,686	3,419,686	-
Accumulated depreciation	(1,714,300)	(1,398,592)	(3,112,892)	(642,265)
Total capital assets, net	634,219	4,860,625	5,494,844	300,295
Total non current assets	986,151	5,263,853	6,250,004	300,295
Total assets	\$ 2,039,321	\$ 7,761,211	\$ 9,800,532	\$ 823,193

See notes to financial statements.

	Business-type Activities- Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Totals	
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 37,956	\$ 315,020	\$ 352,976	\$ 30,201
Accrued liabilities	508	843	1,351	354
Payable from restricted assets:				
Water meter deposits	-	3,790	3,790	-
Bonds payable - current	-	210,000	210,000	-
Due to other funds	140,498	31,803	172,301	-
Retainer payable	-	119,025	119,025	-
Total current liabilities	178,962	680,481	859,443	30,555
Noncurrent liabilities:				
Bonds payable	-	4,268,870	4,268,870	-
Total liabilities	178,962	4,949,351	5,128,313	30,555
<b>Net Assets</b>				
Invested in capital assets, net of related debt	634,219	381,755	1,015,974	300,295
Retained earnings:				
Restricted for capital improvement	506,082	907,874	1,413,956	-
Unrestricted	720,058	1,522,231	2,242,289	492,343
Total net assets	1,860,359	2,811,860	4,672,219	792,638
Total liabilities and net assets	\$ 2,039,321	\$ 7,761,211	\$ 9,800,532	\$ 823,193

**City of Davison**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2004**

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Totals	
<b>Operating revenues:</b>				
Charges for services	\$ 640,881	\$ 687,618	\$ 1,328,499	\$ 241,229
<b>Operating expenses:</b>				
Sewage maintenance	21,437	-	21,437	-
Wages and benefits	168,922	262,621	431,543	74,532
Treatment fees	387,421	-	387,421	-
Supplies	6,754	13,231	19,985	33,588
Heat, light, power	609	23,973	24,582	-
Depreciation	51,586	66,695	118,281	78,121
Amortization	-	2,411	2,411	-
Equipment maintenance and repair	37,548	47,732	85,280	24,275
Building rent and maintenance	25,071	25,071	50,142	6,902
Insurance expense	6,767	17,364	24,131	18,612
Professional fees	6,995	7,452	14,447	-
Sampling	-	21,131	21,131	-
Miscellaneous	18,001	21,330	39,331	627
Total operating expenses	731,111	509,011	1,240,122	236,657
Operating income (loss)	(90,230)	178,607	88,377	4,572
<b>Nonoperating revenues (expenses):</b>				
Intergovernmental grant	-	16,275	16,275	-
Hydrant rentals	-	13,400	13,400	-
Tower rentals	-	10,469	10,469	-
Interest revenue	16,966	24,475	41,441	4,008
Tap-ins	7,400	9,200	16,600	-
Miscellaneous	1,900	25,860	27,760	-
Interest expense and fiscal charges	(704)	(56,215)	(56,919)	-
Gain on sale of fixed asset	-	-	-	11,967
Total nonoperating revenues	25,562	43,464	69,026	15,975
Change in net assets	(64,668)	222,071	157,403	20,547
Net assets - beginning of year	1,925,027	2,589,789	4,514,816	772,091
Net assets - end of year	\$ 1,860,359	\$ 2,811,860	\$ 4,672,219	\$ 792,638

See notes to financial statements.

**City of Davison  
Statement of Cash Flows  
Proprietary Fund Types  
Year Ended June 30, 2004**

	<u>Enterprise Funds</u>			<u>Governmental Activities Internal Service Fund</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
<b>Cash flows from operating activities</b>				
Cash receipts from customers	\$ 633,855	\$ 686,867	\$ 1,320,722	\$ 241,229
Cash payments to suppliers	(496,360)	(202,474)	(698,834)	(59,730)
Cash payments to employees	(169,222)	(263,919)	(433,141)	(75,853)
Net cash provided by (used in) operating activities	(31,727)	220,474	188,747	105,646
<b>Cash flows from noncapital financing activities</b>				
Transfers from (to) other funds	97,255	(111,315)	(14,060)	-
<b>Cash flows from capital and related financing activities</b>				
Acquisition of capital assets	(6,782)	(2,444,625)	(2,451,407)	(106,299)
Tap in revenue	7,400	9,200	16,600	-
Grant revenue	-	16,275	16,275	-
Proceeds (principal paid) on capital debt	(34,138)	3,793,870	3,759,732	-
Interest paid on capital debt	(704)	(56,215)	(56,919)	-
Net cash provided by (used in) capital and related related financing activities	(34,224)	1,318,505	1,284,281	(106,299)
<b>Cash flows from investing activities</b>				
Purchase of investments	(1,946)	(647,809)	(649,755)	(2,111)
Rentals and other miscellaneous charges	1,900	49,729	51,629	-
Interest earned	21,413	41,785	63,198	6,404
Net cash provided by (used in) investing activities	21,367	(556,295)	(534,928)	4,293
Net increase in cash	52,671	871,369	924,040	3,640
Cash and cash equivalents - beginning of year	621,801	372,130	993,931	217,147
<b>Cash and cash equivalents - end of year</b>	<b>\$ 674,472</b>	<b>\$ 1,243,499</b>	<b>\$ 1,917,971</b>	<b>\$ 220,787</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ (90,230)	\$ 178,607	\$ 88,377	\$ 4,572
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities -				
Depreciation and amortization	51,586	69,106	120,692	78,121
Changes in operating assets and liabilities:				
Accounts receivable	(7,026)	(921)	(7,947)	-
Accounts payable	14,243	(25,190)	(10,947)	24,274
Accrued liabilities	(300)	(1,298)	(1,598)	(1,321)
Water meter deposits	-	170	170	-
Net cash provided by (used in) operating activities	\$ (31,727)	\$ 220,474	\$ 188,747	\$ 105,646

*See notes to financial statements.*

**City of Davison  
Statement of Assets and Liabilities  
Fiduciary Funds  
June 30, 2004**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 83,087
Due from other funds	31,279
Prepaid items	<u>17,213</u>
Total assets	<u><u>\$ 131,579</u></u>
 <b>Liabilities</b>	
Accounts payable	\$ 3,306
Accrued liabilities	86,414
Due to other funds	28,984
Due to other governments	<u>12,875</u>
Total liabilities	<u><u>\$ 131,579</u></u>

*See notes to financial statements.*

## **Notes to Basic Financial Statements**



**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies**

**A. Reporting entity**

The City of Davison was incorporated in 1939, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Davison conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Principles used in determining the scope of the entity for financial reporting purposes:

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Davison (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

**Blended component units:**

**Component units** - In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

*Blended component units* - for financial reporting purposes, City of Davison Building Authority has been reported as if it were a part of this City's operations because:

- City has pledged its full faith and credit as a guarantee for the Authority's outstanding debt
- City is obligated to fund deficits of the Authority

**Davison Area Library**

- The City has entered into an agreement with the Township of Davison, the City of Davison, and Richfield Township to share the expenses of providing a library for the use of the residents of the three governmental units. The City of Davison maintains the accounting records for the library as a general fund activity center with the Townships of Davison and Richfield reimbursing the City for their share of the library expenses. The municipalities share the expenses of the library according to the following percentages: 35% by the City, 50% by Davison Township, and 15% by Richfield Township.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies - (continued)**

**A. Reporting entity – (continued)**

Principles used in determining the scope of entity for financial reporting purposes: - (continued)

**Discretely presented component units:**

*Discretely presented component units* - The component units' columns in the combined financial statements include the financial data of the City's other component units. These units are reported in a separate column to emphasize that it is legally separate from the City.

Audited financial statements of each individual component unit are available at City offices.

**City of Davison Downtown Development Authority (DDA)**

- City appoints governing board
- City approves budget of DDA
- City must approve any tax levy of the DDA
- Surplus funds existing at termination of DDA vest to the City

**City of Davison Local Development Finance Authority (LDFA)**

- City appoints the governing board members
- City Council approves the budget of LDFA
- City must approve any tax increment financing plan
- Surplus funds existing at termination of LDFA vest to the City

The following organizations are not part of the City of Davison and are excluded from the accompanying financial statements for the reasons stated.

**Davison Richfield Area Fire Authority and Davison Richfield Senior Citizens Authority:**

- The above entities serve several communities outside of the City of Davison.
- The Authorities are joint ventures with the Township of Davison, the City of Davison, and Richfield Township financed primarily through service fees and/or contributions from the three municipalities.

The Davison Richfield Senior Citizens Authority and the Davison Richfield Area Fire Authority have a June 30 year end. Audited financial statements of the authorities for the year ended June 30, 2004 are available for public inspection at the Authority headquarters.

**B. Government-wide and fund financial statements**

During the year ended June 30, 2004, the City implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The new standard requires government-wide and fund financial statements.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies - (continued)**

**B. Government-wide and fund financial statements – (continued)**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies - (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation – (continued)**

The government reports the following major governmental funds:

General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Street Funds account for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction. The State of Michigan has designated these funds as major governmental funds.

The government reports the following major proprietary funds:

The Water Supply and Sewer Disposal System is a division of the City's Department of Public Work. Separate funds are maintained for the operations of the water distribution system and sewage pumping and collection system.

Additionally, the government reports the following fund types:

Internal service funds account for fleet management services provided to other departments or agencies of the government, or to other governments on a cost reimbursement basis.

Agency Funds account for assets held by the City as an agent for individuals, private organizations and other governments.

Agency funds are reported as fiduciary funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies - (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation – (continued)**

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, liabilities, and net assets or equity**

**1. Deposits**

The City and its component unit has classified all checking and savings accounts as cash and cash equivalents.

The City and its component unit considers all highly liquid investments (including restricted assets) with a maturity of three months or more when purchased to be investments.

**2. Investments:**

Investments for the City, as well as for its component units, are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

**3. Receivables and payables**

In general, outstanding balances between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade, notes, contracts, and property tax receivables are shown net of an allowance for uncollectibles. No allowance has been recorded as management deems all receivables to be collectible.

**4. Inventories and prepaid items**

All inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies - (continued)**

**D. Assets, liabilities, and net assets or equity – (continued)**

**5. Restricted assets**

These assets are restricted through bond agreements.

Restricted assets recorded in the Sewer Enterprise Fund and the Water Supply Enterprise Fund consist of amounts set aside as required by the Drinking Water Revolving Fund Revenue Bonds and the 2003A Refunding Bonds.

**6. Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired during the fiscal year ended June 30, 2004. Prior to the implementation of GASB No. 34, records on these assets were not maintained. The City is not required to retroactively determine costs and accumulated depreciation prior to July 1, 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39
Building improvements	39
Office equipment	7
Computer equipment	5

**7. Deferred revenues**

Deferred revenues represent receipts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City reported as deferred revenues the amount of \$4,804 in the Local Streets Special Revenue Fund, which relates directly to special assessments receivable. See footnote IV.B for details of a long-term rent receivable which has been shown as deferred revenue (\$168,498) in the General Fund.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies - (continued)**

**D. Assets, liabilities, and net assets or equity – (continued)**

**8. Accumulated unpaid vacation and sick pay**

At June 30, 2004, unrecorded liabilities for salaried sick pay are zero since any unused sick days at June 30 have been paid to each employee (other than police department employees), at 1/2 of their unused days. (Note - Police employees are permitted to carryover a maximum of twenty-nine (29) sick days and 120 hours of vacation. Police employees are only paid for these sick days upon normal or disability retirement and termination. This liability is accrued in the government wide financial statements once it is anticipated that the police employee will retire from the City.) The unrecorded liability for salaried vacation pay is nominal and has not been accrued at June 30, 2004. (Only five days may be carried over annually from December to December for employees other than police department employees.) Police employees are permitted to carryover up to 120 hours of vacation from year to year. These hours are paid to the police employee upon termination of employment from the City and have been accrued in the government-wide financial statements.

**9. Long-term obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

- Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.
- The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**10. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**11. Property tax**

Property taxes attach as an enforceable lien on all taxable real and personal property as of December 1. Taxes are levied on the following July 1, are payable on August 31, and collected without penalty through September 30. The City bills and collects its own property taxes and also taxes for the county and several school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the Current Tax Agency Fund. City property tax revenues are recognized as revenue in the fiscal year levied to the extent that they are measurable and available. Property tax administration fee revenue is recognized as revenue when received.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**I. Summary of significant accounting policies - (continued)**

**D. Assets, liabilities, and net assets or equity – (continued)**

**11. Property tax – (continued)**

The City is permitted by charter to levy up to \$13.5 (13.5 mills) per \$1,000 of taxable value for general governmental services. For the year ended June 30, 2004, the City levied \$11.4023 per \$1,000 for general governmental services. Included in the maximum levy is 1.5 mills, which is designated specifically for police protection. As of June 30, 2004, \$1.5 per \$1,000 of taxable value was being levied for police services. The City is permitted to levy unlimited amounts for payment of existing general long-term debt obligations. As of June 30, 2004, \$2.50 per \$1,000 of taxable value was being levied for long-term debt retirement.

In 1981, the City's Downtown Development Authority (DDA) entered into tax incremental financing agreements with the City, Genesee County, Genesee Intermediate Schools, and Davison Community Schools for a fifteen-year period. In 1997, this plan was renewed with all units of government except Davison Community Schools for an additional fifteen years. (Proposal A passed by Michigan taxpayers eliminated the school millage from the calculation of the mills to be used to compute the taxes on the increase in assessed value within the tax increment financing area that can be captured.) Also in 2000 the DDA Authority expanded its boundaries and adopted a new District 2 plan.

In 1997, a Local Development Financing Authority (LDFA) was created to continue for a thirty-year period. The main difference between the LDFA Act and the DDA Act is that the LDFA district services manufacturing areas and does not have to be contiguous property.

Each Authority's tax increment revenue is calculated by multiplying the millage (of all entities involved) times the captured taxable value (the difference between current taxable value and the initial assessed value). The initial assessed values were established in 1981 for the DDA District 1, 1996 for the expanded DDA District 2, and 1997 for the LDFA.

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds payable	\$540,000
Compensated absences	30,762
Net pension obligations	<u>36,313</u>
Net adjustment to reduce <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u><u>\$607,075</u></u>



**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**II. Reconciliation of government-wide and fund financial statements – (continued)**

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 46,301
Depreciation expense	<u>(37,831)</u>
Net adjustment to increase <i>net changes in fund balances -</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i>	<u><u>\$ 8,470</u></u>

**III. Stewardship, compliance, and accountability**

**A. Budgetary information**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the second Monday in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. Informational summaries of projected revenues and expenditures are provided for all other City funds, as well as estimated total costs and proposed methods of financing all capital construction projects.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance and in accordance with Public Act 621 of 1978 of the State of Michigan. All funds' budgets are enacted on a total fund basis.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) with the exception of the Special Revenue - Community Development Fund which is adopted on a project length basis.
5. Budget appropriations lapse at year end.
6. The original budget was amended during the year to be in compliance with the City Charter and applicable state law.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**III. Stewardship, compliance, and accountability**

**B. Budget and actual comparisons – grant/project length budgets**

	Revised Project (Grant) Length <u>Budget</u>	Project Funds Expended During <u>2004</u>	Total Project Funds Expended Through <u>6-30-04</u>	Unexpended Balance at <u>630-04</u>
Special Revenue Fund Type:				
Community Development Fund:				
01-03 Allocation	\$ 81,010	\$ 5,503	\$ 5,503	\$ 75,507
Total Community Development	<u>\$ 81,010</u>	<u>\$ 5,503</u>	<u>\$ 5,503</u>	<u>\$ 75,507</u>

Starting 2001, allocations will be released every three years. The 2001-2003 allocation will be released in 2003.

**C. Excess of expenditures over appropriations**

The General fund incurred expenditures in excess of appropriations as detailed below:

	<u>Final Budget</u>	<u>Actual</u>	Actual Over Final Budget
General Fund:			
Parks and Recreation administration	\$106,687	\$111,443	\$ 4,756

**IV. Detailed notes on all funds**

**A. Deposits and investments**

The City's (primary government) deposits consist of checking accounts, money market accounts, and certificates of deposit.

At year end, the carrying amount of the City's (primary government) deposits, excluding petty cash of \$450, was \$4,060,200 and the bank balance was \$4,502,231. The bank balance includes \$4,323,228 in certificates of deposit. Insurance coverage for deposits amounts to \$800,012 or 17.77%. The amount of uninsured deposits was substantially higher during certain times of the year due to significantly higher cash flows.

The component unit's, Downtown Development Authority and Local Development Finance Authority, deposits consist of checking accounts.

At year end, the carrying amount of the DDA's deposits was \$6,025, and the bank balance was \$7,000. Of the total amount, \$7,000 or 100% was covered by Federal Depository Insurance.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**A. Deposits and investments – (continued)**

At year end, the carrying amount of the LDFA's deposits was \$127,123, and the bank balance was \$127,123. Of the total amount, \$100,000 or 79% was covered by Federal Depository Insurance.

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	\$1,062,176	\$1,192,740	\$ 83,087	\$2,338,003	\$187,627
Investments	2,039,497	2,053,810	-	4,093,307	-
Restricted cash and cash equivalents	-	725,231	-	725,231	-
<b>Total</b>	<u>\$3,101,673</u>	<u>\$3,971,781</u>	<u>\$ 83,087</u>	<u>\$7,156,541</u>	<u>\$187,627</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank deposits (checking and savings accounts, certificates of deposits)	\$4,060,200	\$133,148
Investments in securities, mutual funds and similar vehicles	3,095,891	54,479
Petty cash and cash on hand	450	-
<b>Total</b>	<u>\$7,156,541</u>	<u>\$187,627</u>

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**A. Deposits and investments – (continued)**

At year end, the City's categorized investment balances were as follows:

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Repurchase Agreement (checking/sweep account)	\$ -0-	\$3,095,891	\$ -0-	\$3,095,891	\$3,095,891

The component unit's investments are categorized to give an indication of the level of risk assumed by the entity at year end. The categories are defined as follows: category 1 includes investments that are insured or registered, or for which the securities are held by the DDA or its custodial agent in the DDA's name; category 2 includes uninsured and registered investments for which the securities are held by the broker's or dealer's trust department or agent in the DDA's name; and category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent not in the DDA's name.

	<u>Category</u>			<u>Carrying</u>	<u>Fair</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Repurchase Agreement (checking/sweep account)	\$ -0-	\$54,479	\$ -0-	\$54,479	\$64,479

In accordance with Michigan Public Act 20 of the Public Acts of 1943, as amended, MCL 129.91 and 129.93, City of Davison is empowered to invest in the following:

- a. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the Government National Mortgage Association.
- b. In certificates of deposits, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (or its successor) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 and 6 of Act 105 of the Public Acts of 1855, as amended.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- d. In bankers' acceptances of United States banks.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**A. Deposits and investments – (continued)**

- e. In mutual funds registered under the investment company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. Authorized mutual funds are limited to securities whose intention is to maintain a net asset value of \$1.00 per share. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - 1. The purchase of securities on a when-issued or delayed delivery basis.
  - 2. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
  - 3. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- f. In repurchase agreements or reverse repurchase agreements. A Master Repurchase Agreement must be signed with the bank or dealer.
- g. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.

Collateralization will be required for repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds the collateralized level will be (102%) of market value of principal and accrued interest.

Collateral will always be held by an independent third party with whom City of Davison has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied and retained by City of Davison. The right of collateral substitution is granted.

The City Council has authorized Bank One, Davison State Bank, Citizens Bank, Standard Federal, Fifth Third Bank, Republic Bank, and Lapeer County Bank & Trust as the City's depositories.

All investments are reported at fair value.

The City's investments are categorized to give an indication of the level of risk assumed by the entity at year end. The categories are defined as follows: category 1 includes investments that are insured or registered, or for which the securities are held by the City or its custodial agent in the City's name; category 2 includes uninsured and registered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name; and category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent not in the City's name.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**B. Receivables**

Receivables as of year end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental activities and fiduciary funds:

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Nonmajor Other Funds</u>	<u>Total</u>
Receivables:					
Interest and dividends	\$ 1,373	\$ -	\$ -	\$ -	\$ 1,373
Taxes	12,642	-	-	-	12,642
Accounts	4,284	-	-	-	4,284
Special assessment	-	-	4,804	-	4,804
Gross receivables	18,299	-	4,804	-	23,103
Less: allowance for uncollectibles	-	-	-	-	-
Net total receivables	<u>\$ 18,299</u>	<u>\$ -0-</u>	<u>\$ 4,804</u>	<u>\$ -0-</u>	<u>\$ 23,103</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments not yet due (local streets)	\$ 4,804	\$ -
Long-term notes receivables (general fund)	168,498	-
Total deferred/unearned revenue for governmental funds	<u>\$173,302</u>	<u>\$ -0-</u>

Business type activities:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Receivables:			
Accounts	\$ 41,790	\$ 51,111	\$ 92,901
Gross receivables	41,790	51,111	92,901
Less: allowance for uncollectibles	-	-	-
Net total receivables	<u>\$ 41,790</u>	<u>\$ 51,111</u>	<u>\$ 92,901</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**B. Receivables**

Receivables as of year end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental activities and fiduciary funds:

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Nonmajor Other Funds</u>	<u>Total</u>
Receivables:					
Interest and dividends	\$ 1,373	\$ -	\$ -	\$ -	\$ 1,373
Taxes	12,642	-	-	-	12,642
Accounts	4,284	-	-	-	4,284
Special assessment	-	-	4,804	-	4,804
Gross receivables	18,299	-	4,804	-	23,103
Less: allowance for uncollectibles	-	-	-	-	-
Net total receivables	<u>\$ 18,299</u>	<u>\$ -0-</u>	<u>\$ 4,804</u>	<u>\$ -0-</u>	<u>\$ 23,103</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments not yet due (local streets)	\$ 4,804	\$ -
Long-term notes receivables (general fund)	168,498	-
Total deferred/unearned revenue for governmental funds	<u>\$173,302</u>	<u>\$ -0-</u>

Business type activities:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Receivables:			
Accounts	\$ 41,790	\$ 51,111	\$ 92,901
Gross receivables	41,790	51,111	92,901
Less: allowance for uncollectibles	-	-	-
Net total receivables	<u>\$ 41,790</u>	<u>\$ 51,111</u>	<u>\$ 92,901</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**C. Capital assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,350,302	\$ -	\$ -	\$ 1,350,302
Total capital assets, not being depreciated	<u>1,350,302</u>	<u>-</u>	<u>-</u>	<u>1,350,302</u>
Capital assets, being depreciated:				
Buildings	1,239,230	-	-	1,239,230
Improvements other than buildings	648,712	-	-	648,712
Machinery and equipment	1,341,171	108,201	(62,714)	1,386,658
Infrastructure	-	46,301	-	46,301
Total capital assets being depreciated	<u>3,229,113</u>	<u>154,502</u>	<u>(62,714)</u>	<u>3,320,901</u>
Less accumulated depreciation for:				
Buildings	(695,792)	(15,096)	-	(710,888)
Improvements other than buildings	(552,918)	(3,303)	-	(556,221)
Machinery and equipment	(1,022,937)	(97,552)	62,714	(1,057,775)
Infrastructure	-	-	-	-
Total accumulated depreciation	<u>(2,271,647)</u>	<u>(115,951)</u>	<u>62,714</u>	<u>(2,324,884)</u>
Total capital assets, being depreciated, net	<u>957,466</u>	<u>38,551</u>	<u>-</u>	<u>996,017</u>
Governmental activities capital assets, net	<u>\$ 2,307,768</u>	<u>\$ 38,551</u>	<u>\$ -0-</u>	<u>\$ 2,346,319</u>



**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**C. Capital assets – (continued)**

**Primary Government – (continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	856,037	2,563,649	-	3,419,686
Total capital assets, not being depreciated	857,037	2,563,649	-	3,420,686
Capital assets, being depreciated:				
Building	139,395	-	-	139,395
Systems	4,894,469	6,782	-	4,901,251
Machinery and equipment	146,352	-	-	146,352
Total capital assets, being depreciated	5,180,216	6,782	-	5,186,998
Less accumulated depreciation for:				
Buildings	(26,239)	(3,429)	-	(29,668)
Systems	(2,834,717)	(103,657)	-	(2,938,374)
Machinery and equipment	(133,603)	(11,195)	-	(144,798)
Total accumulated depreciation	2,994,559	(118,281)	-	3,112,840
Total capital assets, being depreciated, net	2,185,657	(111,499)	-	2,074,158
Business-type activities capital assets, net	\$3,042,694	\$2,452,150	\$ -0-	\$5,494,844

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

Current:

General government	\$103,725
Public safety	2,797
Public works	4,884
Recreation and culture	4,545

Total depreciation expense – governmental activities \$115,951

**Business-type activities:**

Sewer	\$ 51,586
Water	66,695

Total depreciation expense – Business-type activities \$118,281

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**C. Capital assets – (continued)**

Discretely presented component units:

Activity for the City of Davison Downtown Development Authority (DDA) for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Machinery and equipment	\$ 40,520	\$ 7,793	\$ -	\$ 48,313
Totals, capital assets being depreciated	40,520	7,793	-	48,303
Less accumulated depreciation for:				
Machinery and equipment	(21,052)	(6,269)	-	(27,321)
Total accumulated depreciation	(21,052)	(6,269)	-	(27,321)
Total capital assets, being depreciated, net	19,468	1,524	-	20,992
Capital assets, net	<u>\$ 19,468</u>	<u>\$ 1,524</u>	<u>\$ -0-</u>	<u>\$ 20,992</u>

**D. Interfund receivables, payables, and transfers**

The composition of interfund balances as of June 30, 2004 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Revolving	\$ 2,443
	Sewer	4,160
	Water	4,160
	Tax	5,127
	Community Development	5,147
Major Streets	General	1,056
Local Streets	General	3,214
1991 General Obligation Bonus	Tax	497
1996 Street Improvement	Tax	497
Sewer	Water	99,926
	General	330
Water	General	26,786
	Sewer	64,054
Fringe	General	10,859
Fringe	Payroll	20,420
		<u>\$248,676</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**D. Interfund receivables, payables, and transfers – (continued)**

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
City of Davison General Fund	Davison Downtown Development Authority	\$ 56,349
General Fund	Davison Local Development Finance Authority	<u>4,203</u>
		<u>\$ 60,552</u>

	<u>Transfer In</u>				
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Internal Nonmajor Governmental</u>	<u>Service Funds</u>	<u>Total</u>
Transfer out:					
General fund	\$ 10,000	\$ 37,464	\$ 85,777	\$ -	\$133,241
Major streets	-	54,156	-	-	54,156
Nonmajor governmental funds	-	-	3,494	-	3,494
Total transfers out	<u>\$ 10,000</u>	<u>\$ 91,620</u>	<u>\$ 89,271</u>	<u>\$ -0-</u>	<u>\$190,891</u>

Transfers between funds were primarily for operating purposes. Other transfers were made to cover operating deficits or close funds.

**E. Operating leases**

The DDA leases storage space located in the City under a lease agreement with the City. The lease may be terminated by either party after a 30-day notification period. The lease expenditure for the component unit and corresponding lease revenue for the City amounted to \$900 in the current year.

Future minimum payments required under the lease are as follows:

<u>Years Ending</u>	<u>Amount</u>
2005	\$ 900
2006	900
2007	<u>225</u>
	<u>\$ 2,025</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**E. Operating leases – (continued)**

The City also leases three copiers under a noncancelable lease agreement. The lease expenditure amounted to \$6,240 for the 2003-2004 fiscal year. Future minimum payments required under the lease are as follows:

<u>Year Ending</u>	<u>Amount</u>
2005	\$ 6,240
2006	<u>6,240</u>
	<u>\$ 12,480</u>

**F. Long-term rent receivable**

The City entered into a long-term lease with the State of Michigan for space located at 300 North Main Street to be used as a Secretary of State office. This lease calls for an initial term (noncancelable) of ten years with two renewal options of five years each. The initial ten year term has been recorded in the General Fund as a receivable and deferred revenue. The rent will be received as detailed below:

<u>Fiscal Year Ending</u>	<u>Rent</u>
6/2005	\$ 29,735
6/2006	29,735
6/2007	29,735
6/2008	29,735
6/2009	29,735
6/2010	<u>19,823</u>
	<u>\$168,498</u>

**G. Long-term debt**

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government. All Michigan Municipal Bond Authority debt is secured by future State of Michigan Revenue Sharing payments the City is entitled to receive under state law. All revenue bonds are supported by the revenues generated from the operation of the respective facilities constructed. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**G. Long-term debt – (continued)**

Bond and contractual obligation activity can be summarized as follows:

	General Obligation <u>Bonds</u>	Revenue <u>Bonds</u>	Other <u>Notes</u>	Accumulated Sick and <u>Vacation</u>	Net Pension <u>Obligation</u>
Governmental activities:					
Debt at July 1, 2003	\$780,000	\$ -	\$ -	\$ 36,458	\$ -
New debt	-	-	-	-	36,313
Principal payments made	(240,000)	-	-	(5,696)	-
Total governmental activities long-term debt	540,000	-	-	30,762	36,313

The following is a summary of Business Type long-term debt transactions of the City for the year ended June 30, 2004:

	General Obligation <u>Bonds</u>	Revenue <u>Bonds</u>	Other <u>Notes</u>	Accumulated Sick and <u>Vacation</u>	Net Pension <u>Obligation</u>
Business type activities:					
Long-term debt payable at July 1, 2003	26,138	685,000	8,000	-	-
New debt:					
2003 Water Improvement Bonds	600,000	-	-	-	-
DWRLF Series 2003C Bonds	-	3,238,870	-	-	-
Principal payments made	(26,138)	(45,000)	(8,000)	-	-
Total business type activities long-term debt at June 30, 2004	600,000	3,878,870	-	-	-
Total long-term debt - all activities June 30, 2004	\$1,140,000	\$3,878,870	\$ -0-	\$ 30,762	\$ 36,313

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**G. Long-term debt – (continued)**

A summary of bond transactions for the year ended June 30, 2004, and the composition of the June 30, 2004, long-term debt balance follows:

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Balance at June 30, 2003</u>	<u>Issuances (Retirements) During Year</u>	<u>Balance at June 30, 2004</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>						
1993 Building Authority Parking Lot	10/1/2003	4.5-5.15%	\$ 20,000	\$ (20,000)	\$ -	\$ -
1996 Street Improvement	10/1/2005	4.0-4.8	350,000	(110,000)	240,000	115,000
1998 General Obligation Unlimited Tax Refunding Bonds	10/1/2006	3.9-4.25	410,000	(110,000)	300,000	105,000
Accumulated vacation and sick pay			36,458	(5,696)	30,762	-
<b>Total governmental activities</b>			<u>\$816,458</u>	<u>\$(245,696)</u>	<u>\$570,762</u>	<u>\$220,000</u>
	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Balance at June 30, 2002</u>	<u>Issuances (Retirements) During Year</u>	<u>Balance at June 30, 2004</u>	<u>Due Within One Year</u>
<b>Business - type activities:</b>						
System #1 – Main Interceptor	4/1/2004	3.6%	\$ 26,138	\$ (\$26,138)	\$ -	\$ -
Mt. Morris contract	3/0/2004	0.0	8,000	(8,000)	-	-
2003A Water Supply and Sewage Disposal System Revenue Refunding Bonds	9/2016	3.95	685,000	(45,000)	640,000	40,000
2003 Water Capital Improvement Bonds	10/1/2018	1.2-4.45	-	600,000	600,000	30,000
Water Supply and Sewage Disposal System Revenue Bonds Series 2003C	10/1/2024	2.5	-	3,238,870	3,238,870	140,000
<b>Total Business - type activities</b>			<u>\$719,138</u>	<u>\$3,759,732</u>	<u>\$4,478,870</u>	<u>\$210,000</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**G. Long-term debt – (continued)**

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30,	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2005	\$220,000	\$19,119	\$ 210,000	\$ 158,629
2006	225,000	9,138	215,000	129,820
2007	95,000	2,019	220,000	123,971
2008	-	-	230,000	117,788
2009	-	-	240,000	111,200
2010-2014	-	-	1,315,000	444,085
2015-2019	-	-	1,315,000	239,164
2020-2023	-	-	733,870	76,750
Total	<u>\$540,000</u>	<u>\$30,276</u>	<u>\$4,478,870</u>	<u>\$1,401,407</u>

Interest is payable on all obligations semi-annually or annually. Principal is paid on an annual basis.

Significant details regarding outstanding revenue bonds are presented below:

Total defeased debt still outstanding at June 30, 2004:

1987 Storm Drain Bonds	\$300,000
1995 Water Supply and Sewage Disposal System Revenue Bonds	<u>595,000</u>
	<u>\$895,000</u>

Act 279, Public Acts of State 1909, as amended, provides that net indebtedness of cities cannot exceed 10% of the real and personal property in the city. The legal debt limit as of June 30, 2004, is 10% of the 2003 Valuation of \$99,406,126 or \$9,940,613. There is \$1,140,000 of debt incurred by the City, which is not specifically exempt from this 10% limitation. The City may, therefore, incur up to \$8,800,613 of new debt subject to this limitation.

**Enterprise Funds:**

The City of Davison was a participant along with various other units of government in the construction of a sanitary sewer under Act 342 Michigan Compiled Laws referred to as Genesee County Sanitary Sewer System #1. The Genesee County Drain Commission issued county bonds whose proceeds, along with state and federal grants, were used to construct this sewer system. The City's allocation of the Main Interceptor Bonds was 4.3562% of an original bond issue of \$13,000,000. These bonds were paid off during 2004.

During 1974, the City purchased additional capacity in the county sewer system from Mt. Morris Township at the cost of \$240,000 to be paid over 30 years. These assets are recorded in the Sewer Fund along with the related debt. The obligation was paid in full during 2004.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**IV. Detailed notes on all funds – (continued)**

**G. Long-term debt – (continued)**

On May 1, 2003, the City issued \$685,000 in Series 2003A Water Supply and Sewage Disposal System Revenue Bonds to defease the 1995 Water Supply and Sewage Disposal System Revenue Bonds. The net proceeds from the issuance were placed in an irrevocable trust with an escrow agent to provide for all future debt service requirements.

On September 25, 2003, the City issued \$3,570,000 Water Supply and Sewage Disposal System Series 2003C Revenue Bonds through the state Drinking Revolving Loan Fund.

On October 3, 2003, the City issued \$600,000 of 2003 General Obligation Capital Improvements Bonds used by the Water Fund.

**Governmental activities:**

In October of 1999, the City issued \$760,000 in 1998 General Obligation Unlimited Tax Refunding Bonds to provide funds to defuse a portion of the 1987 Storm Drain Bonds. The proceeds of the 1999 bonds were used to pay-off individual bond coupons maturing from November 1, 2003 to November 1, 2006. The refunding resulted in a net decrease in future principal and interest payments of \$54,293 and a net economic benefit of \$46,447.

The 1996 Street Improvement Bonds are being paid 100% by the City. The City used the proceeds to improve existing streets.

**V. Other information**

**A. Retirement plans and other post-employment benefits**

The City has two separate single-employer non-contributory defined benefit pension plans; the Public Works Pension Plan and the Non-Union Pension Plan. The City also participates in the Michigan Municipal Employees Retirement System (M.E.R.S.) which is an agent multi-employer public retirement system (PERS) that is administered by the State of Michigan for the Police, Police Command, and Police Dispatch/Secretaries Pension Plans. The three M.E.R.S. plans are all contributory defined benefit plans. The M.E.R.S. was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The City has no fiduciary responsibility for the M.E.R.S. plan. M.E.R.S. issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole. Benefit provisions and contribution obligations have been established by the City Council.

**Police patrol pension plan:**

All full-time police patrol employees, who are a member of a class of employees covered by a collective bargaining agreement between City of Davison and a union representing its police employees, are eligible to participate in the M.E.R.S. police patrol pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2003, the most recent valuation, there were nine active plan members, zero retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.



**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**V. Other information – (continued)**

**A. Retirement plans and other post-employment benefits – (continued)**

Per union contract all participants must contribute three point eighty-nine percent (3.89%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

**Police command pension plan:**

All full-time police department command officers are eligible to participate in the M.E.R.S. police command pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2003 the most recent valuation, there were two active plan members, zero retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Participants must contribute three percent (3%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death, and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 16 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

**Police dispatchers/secretaries pension plan:**

All full-time police department dispatchers/secretaries are eligible to participate in the M.E.R.S. police dispatchers/secretaries pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2003 the most recent valuation, there were two active plan members, one retiree and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Per union contract participants must contribute three percent (3%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death, and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 6 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

**Public works pension plan:**

All full-time public works employees are eligible to participate in the plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of July 1, 2004, the most recent valuation, there were 12 active plan members, zero retirees and beneficiaries receiving benefits, and 0 terminated plan members not yet receiving benefits.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**V. Other information – (continued)**

**A. Retirement plans and other post-employment benefits – (continued)**

**Public works pension plan: - (continued)**

The plan does not require nor does it permit employee contributions.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 55 or with 30 years of service.

**Non-union pension plan:**

All full-time non-union employees are eligible to participate in the plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of July 1, 2004, the most recent valuation, there were seven active plan members, zero retirees and beneficiaries receiving benefits and zero terminated plan members not yet receiving benefits.

The plan does not require nor does it permit employee contributions.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 5 years of service. Participants may elect normal retirement at age 60 or after 5 years of service, whichever is later. The plan also provides for early retirement at age 55 with 15 years of service.

**Funding method and assumptions:**

The terms of the plans require that the City shall make contributions of at least as great as the amount certified by the plan's actuary as the amount necessary to keep the plan in full force. The employer contributions ranged from 12.6% to 27.6% of covered payroll for the M.E.R.S. plans.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**V. Other information – (continued)**

**A. Retirement plans and other post-employment benefits – (continued)**

**Funding method and assumptions: – (continued)**

	<u>DPW</u>	<u>Non-Union</u>	<u>Police</u>	<u>Police Command</u>	<u>Police Dispatch/ Secretaries</u>
Annual Required Contribution (ARC)	\$ 182,762	\$161,282	\$ 72,613	\$ 19,582	\$ 7,324
Interest on NPO	(11,879)	(10,483)	-	-	-
Adjustment to APC	-	-	-	-	-
Annual Pension Contribution (APC)	170,883	150,799	72,613	19,582	7,324
Contributions Made	(120,000)	(123,366)	(72,613)	(19,582)	(7,324)
Increase in Net Pension Obligation (NPO)	50,883	27,433	-	-	-
Net Pension overpayment – beginning of year	(14,570)	(412,534)	-	-	-
Net Pension (overpayment) underpayment – end of year	<u>\$ 36,313</u>	<u>\$(385,101)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Actuarial valuation date	7/1/03	7/1/03	12/31/03	12/31/03	12/31/03
Actuarial cost method	Aggregate	Aggregate	Entry age	Entry age	Entry age
Amortization method	Level \$	Level \$	Level %	Level %	Level %
Remaining amortization period (weighted)	19 years	22 years	32 years	32 years	32 years
Asset valuation method	Market	Market	Market	Market	Market
Actuarial assumptions					
Investment rate of return	6.5%	6.5%	8.0%	8.0%	8.0%
Projected salary increase	5.0	5.0	4.5	4.5	4.5

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**V. Other information – (continued)**

**A. Retirement plans and other post-employment benefits – (continued)**

**Annual pension costs**

Three year trend information regarding the annual pension costs (APC), percentage of APC contributed, and net pension obligation (NPO) are summarized by plan as follows:

	Plan Year <u>End</u>	Actuarial Valuation <u>Date</u>	Annual Pension Cost (APC) <u>Cost (APC)</u>	% of APC <u>Contributed</u>	Net Pension Obligation (Overpayment) NPO
<u>DPW</u>					
	6/30/04	7/1/03	\$182,762	66.00%	\$ 36,313
	6/30/03	7/1/02	163,344	0.00	(14,570)
	6/30/02	7/1/01	-	100.00	(166,300)
<u>Non-Union</u>					
	6/30/04	7/1/03	161,282	93.00	(168,950)
	6/30/03	7/1/02	146,201	269.19	(412,534)
	6/30/02	7/1/01	107,456	223.35	(196,383)
<u>Police</u>					
	6/30/04	12/31/03	72,613	100.00	-
	6/30/03	12/31/02	64,310	100.00	-
	6/30/02	12/31/01	61,836	100.00	-
<u>Police Command</u>					
	6/30/04	12/31/03	19,582	100.00	-
	6/30/03	12/31/02	17,603	100.00	-
	6/30/02	12/31/01	16,800	100.00	-
<u>Police Dispatchers/Secretaries Pension Plan</u>					
	6/30/04	12/31/03	7,324	100.00	-
	6/30/03	12/31/02	9,537	100.00	-
	6/30/02	12/31/01	11,388	100.00	-

**Post retirement benefits**

The City provides post retirement benefits (health, dental, and optical) to all City retirees. (Effective July 1, 1992, a surviving spouse may continue in the retiree segment if he or she is eligible to assume pension benefits.) During the current year, 12 retirees received benefits. The total cost for these benefits for 2004 was \$121,309. The City pays for 100% of these costs as incurred and provides no funding for them as they are earned. There is no provision for employee contributions.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**V. Other information – (continued)**

**B. Deferred compensation plan**

The City offers its employees a Deferred Compensation Plan created in accordance with IRC Section 457. The plan, available to substantially all City employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseen emergency.

The law allows trusts to be created for the plan assets, thereby, insulating the assets from the City's general creditors. The City's plan administrator created the trust and placed the assets of the plan within the trust. As a result, the plans assets are not shown on the financial statements to reflect that the City has no fiduciary or administrative responsibility for this plan.

**C. Building department revenues and expenditures**

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The City chose the latter because historically, the expenditures have exceeded revenues. The activity related to construction code activity for the year ended June 30, 2004 is as follows:

Revenues – building permits	\$ 18,000
Less: Expenditures	<u>(114,885)</u>
Excess expenditures over revenues	<u><u>\$(96,885)</u></u>

**D. Summary disclosures of significant contingent liabilities**

Federal, state, and local grants:

The City participates in a number of federally, state, and locally assisted grant programs, principally of which is the federally funded Community Development Block Grant and Drinking Water Revolving Loan Fund. The programs are subject to compliance audits. In accordance with the Single Audit Act of 1984, compliance audits of federal grants were made during the current year and have been reported under a separate cover. However, specific grantors have yet to make final approval of the compliance audits. The amount, if any, of expenditures which may be disallowed by the grant agencies, cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**V. Other information – (continued)**

**E. Risk management**

Risk Management - primary government:

The City is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries. The City has purchased commercial insurance for coverage of all claims except full-time employee unemployment benefits. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City pays unemployment claims on a reimbursement basis.

**F. Joint ventures**

1. In April 1979, the City of Davison entered into a joint venture with the Township of Davison to create a Senior Citizen's Authority. Richfield Township entered into the joint venture on July 1, 1996. The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and Townships. The Authority is governed by a seven member board appointed by the governing bodies of the City, Township, and Richfield Township. The seven member board is made up of two members from each municipality and the seventh member will be appointed alternately by the member municipalities. The agreement provides that the three municipalities will provide 1/3 of the net expenses, with the exception of utilities and insurance on the old center, which was applied against the City of Davison and Davison Township's portion of their expenses only. In the new building, all parties contributed to the cost of the center and share in its ownership on a percentage basis. All revenue from the new center is shared evenly. In addition, the board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval.

The following is a summary of selected financial information of the Senior Citizen's Authority:

	<u>Year Ended</u> <u>June 30, 2004</u>
Total assets	\$1,391,178
Total liabilities	23,384
Total joint venture equity	1,367,794
Fund equity to be used for specific purposes	584
Total revenues	129,999
Total expenditures	141,168
Operating subsidy from City	

The City of Davison's interest in the Authority's net assets as of June 30, 2004, was \$455,736. However, the majority of the Senior Citizens Authority's assets were purchased with federal funds so any income from the sale of these assets would revert to the federal agency.

2. In January 1972, the City of Davison entered into a joint venture with Davison Township and Richfield Township to create the Davison Richfield Area Fire Authority. The purpose of the Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Authority is governed by a seven member board appointed by the governing bodies of the City and Townships. The agreement calls for each municipality to pay for each fire run to a point within its jurisdictional boundary.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2004**

**V. Other information – (continued)**

**F. Joint ventures – (continued)**

**2. – (continued)**

The following is a summary of selected financial information of the Fire Authority:

	<u>Year Ended</u> <u>June 30, 2004</u>
Total assets	\$2,624,787
Total liabilities	68,215
Total joint venture equity	2,556,752
Total revenues	585,409
Total expenditures	453,716
Operating subsidy from City	119,383

The City of Davison's interest in the Fire Authority's net assets as of June 30, 2004, was approximately 20.84%.

## **Required Supplementary Information**



**City of Davison**  
**Required Supplementary Information**  
**Analysis of Funding Progress**

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability Entry Age (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b-a)/c)</u>
<b><u>DPW Pension Plan:</u></b>							
6/30/04	7/1/03	\$870,097	\$1,686,473	\$816,376	51.59%	\$312,025	197.54%
6/30/03	7/1/02	860,630	1,521,348	660,718	56.57	312,140	211.67
6/30/02	7/1/01	1,272,643	1,441,224	168,581	88.30	272,942	61.76
<b><u>Non-Union Pension Plan:</u></b>							
6/30/04	7/1/03	108,021	620,864	512,843	17.40	335,152	153.02
6/30/03	7/1/02	393,545	855,859	462,314	45.98	331,364	139.52
6/30/02	7/1/01	1,009,142	1,083,213	74,071	93.16	271,146	27.32
<b><u>Police Patrol Pension Plan:</u></b>							
6/30/04	12/31/03	1,321,374	1,803,629	482,255	73.3	527,019	91.50
6/30/03	12/31/02	1,113,840	1,639,049	525,209	68.00	477,389	110.04
6/30/02	12/31/01	980,875	1,509,718	528,843	63.00	449,409	117.68
<b><u>Police Command Pension Plan:</u></b>							
6/30/04	12/31/03	240,474	386,378	145,904	62.20	138,582	105.30
6/30/03	12/31/02	195,214	320,868	125,654	60.80	127,187	98.79
6/30/02	12/31/01	163,879	273,852	109,973	59.80	121,565	90.47
<b><u>Police Dispatchers/Secretaries Pension Plan:</u></b>							
6/30/04	12/30/13	125,825	249,679	123,853	50.40	43,931	282.00
6/30/03	12/31/02	122,701	234,019	111,318	52.40	50,125	222.08
6/30/02	12/31/01	121,579	211,695	90,116	57.40	57,422	156.94

**City of Davison**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,270,571	\$ 1,270,571	\$ 1,256,053	\$ (14,518)
Licenses and permits	34,600	34,600	20,065	(14,535)
Intergovernmental revenue:				
State and local	677,106	677,106	758,548	81,442
Charges for services	40,000	40,000	90,320	50,320
Fines and forfeits	45,000	45,000	55,405	10,405
Interest income	40,000	40,000	38,286	(1,714)
Miscellaneous revenues	232,337	232,337	171,264	(61,073)
<b>Total revenues</b>	<b>2,339,614</b>	<b>2,339,614</b>	<b>2,389,941</b>	<b>50,327</b>
<b>Expenditures</b>				
Current:				
Legislative	23,800	23,800	21,550	2,250
General government:				
Executive expenses	117,723	117,723	119,373	(1,650)
Clerk	56,731	56,731	57,486	(755)
Treasurer	70,277	70,277	69,658	619
Election	10,000	10,000	5,075	4,925
Planning commission	5,950	5,950	1,617	4,333
Board of appeals	2,780	2,780	519	2,261
Administration expenses	310,763	310,763	297,282	13,481
Hall and grounds	68,700	68,700	78,181	(9,481)
Less reimbursements from:				
Local streets	(19,002)	(19,002)	(17,092)	(1,910)
Major streets	(20,002)	(20,002)	(17,092)	(2,910)
Water	(152,880)	(152,880)	(145,852)	(7,028)
Sewer	(152,880)	(152,880)	(145,852)	(7,028)
Equipment	(11,260)	(11,260)	(9,588)	(1,672)
Public safety:				
Police protection	1,255,819	1,255,819	1,171,773	84,046
Fire protection	139,400	139,400	132,780	6,620
Building and code enforcement	112,233	112,233	114,885	(2,652)
Public works:				
Public works	208,822	208,822	203,738	5,084
Street lighting	54,000	54,000	56,382	(2,382)
Public improvements	87,000	87,000	69,202	17,798
Sanitation	25,580	25,580	28,432	(2,852)
Off street parking	7,800	7,800	3,103	4,697
Recreation and culture:				
Senior citizens	36,000	36,000	27,131	8,869
Parks and recreation	100,000	100,000	57,536	42,464
Library	33,150	33,150	34,178	(1,028)
Community development	35,830	35,830	16,565	19,265
<b>Total expenditures</b>	<b>2,406,334</b>	<b>2,406,334</b>	<b>2,230,970</b>	<b>175,364</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(66,720)</b>	<b>(66,720)</b>	<b>158,971</b>	<b>225,691</b>

**City of Davison**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2004**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget -</b>
				<b>Favorable</b>
				<b>(Unfavorable)</b>
<b>Other financing uses</b>				
Operating transfers out	(132,979)	(132,979)	(133,242)	(263)
Net change in fund balance	(199,699)	(199,699)	25,729	225,428
Fund balances - beginning of year	1,462,361	1,462,361	1,462,361	-
Residual equity transfer in	-	-	178	(178)
<b>Fund balances - end of year</b>	<b>\$ 1,262,662</b>	<b>\$ 1,262,662</b>	<b>\$ 1,488,268</b>	<b>\$ 225,250</b>

**City of Davison**  
**Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual**  
**Major Street Fund**  
**For the Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
<b>Revenues</b>				
Intergovernmental revenue:				
State and local	\$ 249,530	\$ 249,530	\$ 272,461	\$ 22,931
Interest income	4,250	4,250	3,318	(932)
Total revenues	253,780	253,780	275,779	21,999
<b>Expenditures</b>				
Current:				
Highways and streets	219,624	219,624	166,619	53,005
Total expenditures	219,624	219,624	166,619	53,005
Excess of revenues over				
expenditures	34,156	34,156	109,160	75,004
<b>Other financing sources (uses)</b>				
Operating transfers in	20,000	20,000	10,000	(10,000)
Operating transfers out	54,156	54,156	(54,156)	(108,312)
Total other financing sources	74,156	74,156	(44,156)	(118,312)
(uses)				
Net change in fund balances	108,312	108,312	65,004	(43,308)
Fund balances - beginning of year	403,865	403,865	403,865	-
<b>Fund balances - end of year</b>	<b>\$ 512,177</b>	<b>\$ 512,177</b>	<b>\$ 468,869</b>	<b>\$ (43,308)</b>

**City of Davison**  
**Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual**  
**Local Street Fund**  
**For the Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b>Revenues</b>				
Special assessments	\$ -	\$ -	\$ 1,051	\$ 1,051
Intergovernmental revenue:				
State	89,749	89,749	88,960	(789)
Interest income	4,350	4,350	2,391	(1,959)
Total revenues	94,099	94,099	92,402	(1,697)
 <b>Expenditures</b>				
Current:				
Highways and streets	193,255	193,255	186,812	6,443
Total expenditures	193,255	193,255	186,812	6,443
Deficiency of revenues over expenditures	(99,156)	(99,156)	(94,410)	4,746
 <b>Other financing sources</b>				
Operating transfers in	99,156	99,156	91,620	(7,536)
Total other financing sources	99,156	99,156	91,620	(7,536)
Net change in fund balance	-	-	(2,790)	(2,790)
 Fund balances - beginning of year	166,850	166,850	166,850	-
<b>Fund balances - end of year</b>	<u>\$ 166,850</u>	<u>\$ 166,850</u>	<u>\$ 164,060</u>	<u>\$ (2,790)</u>

**Combining Fund Statements and  
Fund Descriptions**

**City of Davison, Michigan**  
**Nonmajor Governmental Funds**  
**Summary Descriptions**  
**June 30, 2004**

**Special Revenue Funds**

The Community Development Fund – was established to account for the receipt and disbursements of grants received from Community Development Block Grants.

The Administration Parks and Recreation Fund - used to accumulate the resources and payments relative to the administration of the parks and recreation programs.

The Parks and Recreation Activity Fund - used to accumulate the resources and payments related to the programming of the parks and recreation activities.

The Capital Improvement Fund – used to accumulate resources for the payment of sanitation expenditures.

**Debt Service Funds**

The 1998 General Obligation Bond Fund – was established to accumulate resources for the payment of storm improvement bonds.

The 1996 Street Improvement Bond Fund – was established to accumulate resources for the payment of street improvement bonds.

The Building Authority Bond Fund – was established to accumulate resources for the payment of building authority bonds.

(continued)

**City of Davison, Michigan**  
**Nonmajor Governmental Funds**  
**Summary Descriptions – (continued)**  
**June 30, 2004**

**Capital Projects Funds**

The 1987 Storm Drain Improvement Fund – was established to account for storm drain improvements.

The 1996 Street Improvement Fund – was established to account for street improvements.



**City of Davison, Michigan  
Fiduciary Funds  
Summary Descriptions  
June 30, 2004**

**Agency Funds**

The Revolving Fund – is used to account for City's disbursements.

The Imprest Payroll Fund – is used as a clearing fund for the City's payroll.

The Fringe Benefit Fund – is used as a clearing fund for the City's fringe benefits. Monies are accumulated in this fund as a result of payroll allocations made on a departmental basis.

The Tax Collection Fund – is used to account for cash receipts and disbursements for property taxes levied.

**City of Davison  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

	Special Revenue			
	Community Development	Admini- stration Parks & Rec.	Parks & Rec. Activity	Capital Improvements
<b>Assets</b>				
Cash and cash equivalents	\$ 167	\$ -	\$ -	\$ 19,700
Investments	-	-	-	-
Due from other funds	-	-	-	-
Due from other governmental units	5,883	-	-	-
Total assets	\$ 6,050	\$ - 0 -	\$ - 0 -	\$ 19,700
<b>Liabilities</b>				
Accounts payable	\$ 903	\$ -	\$ -	\$ -
Due to other funds	5,147	-	-	-
Due to other governments	-	-	-	-
Total liabilities	6,050	-	-	-
<b>Fund Balances</b>				
Reserved for debt service	-	-	-	-
Reserved for street improvements	-	-	-	-
Reserved for storm drain improvements	-	-	-	-
Reserved for sanitation	-	-	-	19,700
Total fund balances	-	-	-	19,700
Total liabilities and and fund balances	\$ 6,050	\$ - 0 -	\$ - 0 -	\$ 19,700

1998 General Obligation Bonds	Debt Service		Capital Projects		Total
	1996 Street Improvement	Building Authority Bonds	1987 Storm Drain Improvements	1996 Street Improvements	
\$ 131,577	\$ 127,244	\$ 161	\$ 51,533	\$ 10,184	\$ 340,566
229,331	-	-	-	-	229,331
497	497	-	-	-	994
-	-	-	-	-	5,883
<hr/>					
\$ 361,405	\$ 127,741	\$ 161	\$ 51,533	\$ 10,184	\$ 576,774
<hr/>					
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 903
-	-	-	-	-	5,147
2,132	-	-	-	-	2,132
<hr/>					
2,132	-	-	-	-	8,182
<hr/>					
359,273	127,741	161	-	-	487,175
-	-	-	51,533	-	51,533
-	-	-	-	10,184	10,184
-	-	-	-	-	19,700
<hr/>					
359,273	127,741	161	51,533	10,184	568,592
<hr/>					
\$ 361,405	\$ 127,741	\$ 161	\$ 51,533	\$ 10,184	\$ 576,774
<hr/>					

**City of Davison**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2004**

	Special Revenue			
	Community Development	Admini- stration Parks & Rec.	Parks & Rec. Activity	Capital Improvements
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenue:				
Federal	5,503	-	-	-
Charges for services	-	-	3,313	189,224
Interest income	-	171	50	832
Miscellaneous revenues	-	8,303	4,850	-
<b>Total revenues</b>	<b>5,503</b>	<b>8,474</b>	<b>8,213</b>	<b>190,056</b>
<b>Expenditures</b>				
Current:				
Sanitation	-	-	-	189,420
Recreation	-	111,443	15,506	-
Debt service:				
Principal payments	-	-	-	-
Interest and fiscal charges	-	-	-	-
Capital outlay	5,503	-	-	-
<b>Total expenditures</b>	<b>5,503</b>	<b>111,443</b>	<b>15,506</b>	<b>189,420</b>
Excess (deficiency) of revenues over expenditures	-	(102,969)	(7,293)	636
<b>Other financing sources (uses)</b>				
Operating transfers in	-	66,427	2,066	-
Operating transfers out	-	(2,066)	(1,428)	-
<b>Total other financing sources</b>	<b>-</b>	<b>64,361</b>	<b>638</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>(38,608)</b>	<b>(6,655)</b>	<b>636</b>
<b>Fund balances - beginning of year</b>	<b>-</b>	<b>38,786</b>	<b>6,655</b>	<b>19,064</b>
<b>Residual equity transfer out</b>	<b>-</b>	<b>(178)</b>	<b>-</b>	<b>-</b>
<b>Fund balances - end of year</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ 19,700</b>

1998 General Obligation Bonds	Debt Service		Building Authority Bonds	Capital Projects		Total
	1996 Street Improvement			1987 Storm Drain Improvements	1996 Street Improvements	
\$ 121,743	\$ 121,743		\$ -	\$ -	\$ -	\$ 243,486
-	-		-	-	-	5,503
-	-		-	-	-	192,537
2,572	902		11	345	54	4,937
-	-		-	-	-	13,153
124,315	122,645		11	345	54	459,616
-	-		-	-	-	189,420
-	-		-	-	-	126,949
110,000	110,000		20,000	-	-	240,000
15,428	14,313		778	-	-	30,519
-	-		-	-	-	5,503
125,428	124,313		20,778	-	-	592,391
(1,113)	(1,668)		(20,767)	345	54	(132,775)
-	-		20,778	-	-	89,271
-	-		-	-	-	(3,494)
-	-		20,778	-	-	85,777
(1,113)	(1,668)		11	345	54	(46,998)
360,386	129,409		150	51,188	10,130	615,768
-	-		-	-	-	(178)
\$ 359,273	\$ 127,741		\$ 161	\$ 51,533	\$ 10,184	\$ 568,592

**City of Davison**  
**Schedule of Revenues, Expenditures, and Changes**  
**in Fund Balances - Budget and Actual**  
**Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2004**

	<b>Administration Parks &amp; Recs.</b>		
			<b>Variance with</b>
	<b>Budgeted Amounts</b>	<b>Actual</b>	<b>Final Budget -</b>
	<b>Original</b>	<b>Final</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
<b>Revenues</b>			
Charges for services	\$ -	\$ -	\$ -
Interest income	1,750	170	1
Miscellaneous revenues	9,300	8,088	215
<b>Total revenues</b>	<b>11,050</b>	<b>8,258</b>	<b>216</b>
<b>Expenditures</b>			
Current:			
Sanitation	-	-	-
Recreation	79,070	106,687	(4,756)
<b>Total expenditures</b>	<b>79,070</b>	<b>106,687</b>	<b>(4,756)</b>
Excess (deficiency) of revenues over expenditures	(68,020)	(98,429)	(4,540)
<b>Other financing sources (uses)</b>			
Operating transfers in	68,020	66,429	(2)
Operating transfers out	-	-	(2,066)
<b>Total other financing sources (uses)</b>	<b>68,020</b>	<b>66,429</b>	<b>(2,068)</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>(32,000)</b>	<b>(6,608)</b>
<b>Fund balances - beginning of year</b>	<b>38,786</b>	<b>38,786</b>	<b>-</b>
<b>Residual equity transfer out</b>	<b>-</b>	<b>-</b>	<b>(178)</b>
<b>Fund balances - end of year</b>	<b>\$ 38,786</b>	<b>\$ 6,786</b>	<b>\$ - 0 -</b>

Parks & Recs. Activities				Capital Improvement			
Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Original	Final			Original	Final		
\$ 50,000	\$ 3,413	\$ 3,313	\$ (100)	\$ 189,420	\$ 189,420	\$ 189,224	\$ (196)
500	23	50	27	500	500	832	332
48,530	939	4,850	3,911	-	-	-	-
99,030	4,375	8,213	3,838	189,920	189,920	190,056	136
-	-	-	-	189,920	189,920	189,420	500
96,010	15,504	15,506	(2)	-	-	-	-
96,010	15,504	15,506	(2)	189,920	189,920	189,420	500
3,020	(11,129)	(7,293)	3,836	-	-	636	636
-	-	2,066	2,066	-	-	-	-
(3,020)	(1,428)	(1,428)	-	-	-	-	-
(3,020)	(1,428)	638	2,066	-	-	-	-
-	(12,557)	(6,655)	5,902	-	-	636	636
6,655	6,655	6,655	-	-	19,064	19,064	-
-	-	-	-	-	-	-	-
\$ 6,655	\$ (5,902)	\$ - 0 -	\$ 5,902	\$ - 0 -	\$ 19,064	\$ 19,700	\$ 636

**City of Davison  
Combining Balance Sheet  
Agency Funds  
June 30, 2004**

	<b>Revolving Fund</b>	<b>Imprest Payroll</b>	<b>Fringe Benefit</b>	<b>Tax Collection</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 2,443	\$ 23,727	\$ 37,922	\$ 18,995	\$ 83,087
Due from other funds	-	-	31,279	-	31,279
Prepaid items	-	-	17,213	-	17,213
<b>Total assets</b>	<b>\$ 2,443</b>	<b>\$ 23,727</b>	<b>\$ 86,414</b>	<b>\$ 18,995</b>	<b>\$ 131,579</b>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 3,306	\$ -	\$ -	\$ 3,306
Accrued liabilities	-	-	86,414	-	86,414
Due to other funds	2,443	20,421	-	6,120	28,984
Due to other governments	-	-	-	12,875	12,875
<b>Total liabilities</b>	<b>\$ 2,443</b>	<b>\$ 23,727</b>	<b>\$ 86,414</b>	<b>\$ 18,995</b>	<b>\$ 131,579</b>



**Single Audit Report**

**City of Davison  
Genesee County, Michigan**

**For Year Ended June 30, 2004**

## Table of Contents

	<u>Page</u>
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	1-2
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 .....	3-4
Schedule of Expenditures of Federal Awards.....	5
Schedule of Findings and Questioned Costs.....	6-7
Prior Year's Unresolved Findings.....	8

Independent Auditors' Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance with  
*Government Auditing Standards*

Honorable Mayor and the City Council  
City of Davison  
Genesee County, Michigan

We have audited the financial statements of City of Davison as of and for the year ended June 30, 2004, and have issued our report thereon dated September 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether City of Davison's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered City of Davison's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of City of Davison in a separate letter dated September 19, 2004.

This report is intended solely for the information of City of Davison, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*BKR Dupuis & Ryden*

Certified Public Accountants  
Flint Office

September 19, 2004

**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control over  
Compliance in Accordance with OMB Circular A-133**

Honorable Mayor and the City Council  
City of Davison  
Genesee County, Michigan

**Compliance**

We have audited the compliance of the City of Davison with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. City of Davison's major federal program is identified in the accompanying schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Davison's management. Our responsibility is to express an opinion on City of Davison's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Davison's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Davison's compliance with those requirements.

As described in item 04-1 in the accompanying schedule of findings and questioned costs, City of Davison did not fully comply with the requirements regarding cash management that are applicable to its Drinking Water Revolving Loan Funds. Compliance with such requirements is necessary, in our opinion, for City of Davison to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, City of Davison complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

#### **Internal Control over Compliance**

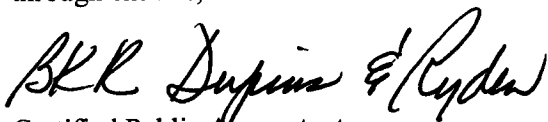
The management of the City of Davison is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Davison's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of City of Davison as of and for the year ended June 30, 2004, and have issued our report thereon, under separate cover, dated September 19, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the City of Davison, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants  
Flint Office

September 19, 2004

**City of Davison**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2004**

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Accrued Expenditures for Year Ended 6-30-04</u>	<u>Current Year Receipts</u>	<u>Accrued or (Deferred) Revenue 6-30-04</u>
Environmental Protection Agency (EPA)				
Passed through State of Michigan:				
Drinking Water Revolving Loan Fund *	66.468	\$3,238,870	\$3,238,870	\$ -
Passed through Michigan Department of Environmental Quality:				
Wellhead Protection Grant Assistance	66.648	16,275	16,275	-
Total EPA		3,255,145	3,255,145	-
Department of Housing and Urban Development				
Passed through Genesee County:				
Community Development Block Grant Program	14.218	5,503	-	5,503
Department of Transportation				
Passed through State of Michigan Department of Transportation:				
Enhancement Grant	20.205	22,982	8,852	14,130
Total federal awards		\$3,283,630	\$3,263,997	\$ 19,633

\* Denotes Major Program.

**City of Davison  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004**

**Part I**

Did the auditee expend more than \$25,000,000  
in federal awards during the fiscal year? ☐ Yes ☒ No

If direct support was received indicate federal agency None

**Part II – Financial Statements**

Type of auditor's report issued: Unqualified

Going concern explanatory paragraph included ☐ Yes ☒ No

Internal control over financial reporting:  
Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified  
not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements  
noted? ☐ Yes ☒ No

Findings related to the financial statements reported in accordance with *Governmental Auditing Standards*: None

**Part III – Federal Programs**

Type of auditor's report issued on compliance  
for major programs: Unqualified

Does the auditor's report include a statement  
that the auditee's financial statements include  
departments, agencies, or other organizational  
units expending greater than \$300,000 in Federal  
awards that have separate A-133 audits which are  
not included in this audit? ☐ Yes ☒ No

Dollar threshold used to distinguish  
between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee ☐ Yes ☒ No

(continued)



**City of Davison**  
**Schedule of Findings and Questioned Costs - (continued)**  
**Year Ended June 30, 2004**

**Part III – Federal Programs – (continued)**

Is a reportable condition disclosed for any major program?      X   Yes                           No  
Is any reportable condition reported as a material weakness?           Yes                      X   No  
Are any known questioned costs reported?                                   Yes                      X   No  
Was a Summary Schedule of Prior Audits Findings Prepared?   X   Yes                           No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>66.468</u>	<u>Drinking Water Revolving Loan Fund</u>

Findings and questioned costs relating to federal awards:

04-1:

Criteria:	Cash management
Condition:	Retainage was drawn down and not remitted within federal guideline time frames.
Questioned costs:	\$-0-
Context:	Retainage was drawn down upon invoicing. It was not paid out to the vendors until months later.
Recommendation:	Retainage must be paid within a reasonable time after draw down.
Management's response:	Management was following state law regarding retainers. It allows for monies to be drawn down and maintained in an interest bearing account until remitted.

**City of Davison  
Prior Year's Unresolved Findings  
June 30, 2004**

There were no prior year's unresolved findings.

September 19, 2004

Honorable Mayor and the City Council  
City of Davison  
Genesee County, Michigan

We have audited the financial statements of the City of Davison (the City) for the year ended June 30, 2004, and have issued our report thereon dated September 19, 2004. Professional standards require that we provide you with the following information related to our audit.

#### **Our Responsibility under Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

#### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the general purpose financial statements. GASB 34 was adopted during fiscal 2004. The application of existing policies was not changed during the year ended June 30, 2004. During the year the parks and recreations' activities and administration accounts were closed. Any parks and recreation activity in subsequent years will be accounted for in the general fund.

#### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the City that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements.

We posted various adjustments that individually or in the aggregate, have a significant effect on the City's financial reporting process. These adjustments related primarily to year-end accruals for payroll, accounts payable, accounts receivable, state shared revenues, gas and weight tax revenues, and interest income.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit. However, additional time was incurred during the 2004 audit to assist the staff with year-end accrual entries, to finalize the tax roll reconciliation, reconciliation of interfund payable and receivables, reconciliation of bank reconciliations to the general ledger, reconciliation of accounts payable, and accounts receivable detail to the general ledger.

As part of our audit, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing, and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and we do not express such an opinion.

#### **Status Prior Year Comments**

We suggested the treasurer review bank reconciliations for all accounts on a monthly basis. The review should be indicated by a sign-off by the treasurer on the bank reconciliation. The treasurer's review should also include

reconciliation between the bank reconciliation and the general ledger. During the current year's audit, we found no documentation of the Treasurer's review on the bank reconciliations and we also noted that various bank account reconciliations were not prepared and investments did not agree to the general ledger at June 30, 2004.

#### **Current Year Comments**

##### **Utility Receivable**

During the current audit it was noted that the utility billing system receivable report did not agree with the general ledger. We recommend the cause of the difference be determined and corrected.

##### **Property Tax Roll Accounting**

As the City's property tax roll becomes more complex, we recommend written procedures be established to document the property tax collection and disbursement process.

##### **Grant Accounting**

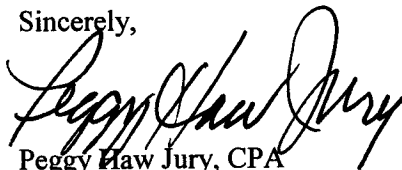
Several new grants were received during the year by the City. It was noted that related revenues and expenses were noted in liability accounts. We recommend new revenue and expense accounts be established to account for grant activity.

##### **Debt Service Levies**

Debt service tax levies need to be closely monitored to ensure that taxes in excess of the remaining debt service requirements are not collected.

We appreciate the opportunity to present this letter for your analysis and review. This letter is intended solely for internal management and should not be used for any other purpose. We would also like to express our appreciation for the cooperation extended to our staff by the City's personnel during the course of the audit. If you have any questions regarding the contents of this letter, please contact us.

Sincerely,



Peggy Haw Jury, CPA  
Principal

Flint Office